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My opinion Jim Kiser: Lawmakers make it easy for lenders

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I wrote last week about how payday lenders deliberately target members of the armed forces to charge their unconscionably high rates of nearly 400 percent a year.

Today I want to discuss the official and corporate complicity that allows such predators to operate in Arizona.

The most obvious question is how a company can charge such high interest rates and not violate Arizona law, which restricts interest on loans to no more than 36 percent a year. Anything more is usury, a class 6 felony.

So why aren't the payday loan operators being led away in handcuffs and prosecuted?

Simple. When the Legislature passed the law that allows payday lenders to operate, it restricted the definition of interest. The law declares the fees these firms charge are "not interest for purposes of any other law or rule of this state."

Legislators obviously were trying to make it easy for these companies to operate and charge their high fees. If the companies' subsequent growth is an indication, the legislators succeeded remarkably. In the year 2000, there were 16 payday lending locations in Pima County. There are now 130 payday lenders or check cashing stores.

Another obvious question is where these companies get the money to lend. The answer is, they get it from three sources: their owners, their high fees and banks.

That's right. They borrow money from banks, just as you and I do. Banks that lend to payday lenders include Wells Fargo, JP Morgan Chase, Bank of America, US Bancorp and many others, according to the California Reinvestment Coalition, which tries to improve access to banks for low-income residents.

Thanks to such establishment banks, the companies borrow money at rates of about 5 percent per year, and then turn around and lend it out at rates of 15 percent for two weeks.

No wonder some of the national payday lending companies had returns on equity in excess of 100 percent while they were privately owned. For comparison, Wal-Mart, one of the nation's most successful companies, had a return on equity last year of about 22 percent.

Banks contribute to the success of payday lenders in other, more subtle ways. High bank fees for bounced checks, for late credit card payments or for cashing noncustomer checks drive some people to the payday lenders and check cashers.

Moreover, banks tend to locate in more affluent areas of the city, which creates less competition for the payday lenders in high-poverty areas. In Pima County, 67 percent of the payday lenders and check cashers are located within one-quarter mile of a high-poverty area, versus only 34 percent of banks, according to the Southwest Center for Economic Integrity.

Unfortunately, banks are not the only establishment support for the payday lenders. The city of Tucson and Tucson Electric Power both allow customers to pay their water and electric bills at several payday lender and check-cashing locations.

I don't doubt this is for customers' convenience. Yet I don't doubt, either, that it lends legitimacy and credibility to the payday lenders.

The payday lenders also can afford powerful teams of lobbyists and public relations professionals. The ink had barely dried on my column last week before Colin Zimmerman, of Zimmerman and Associates, sent me an e-mail insisting the firms do not target the military.

He said in an interview Tuesday the firms choose locations solely on the amount of traffic at an intersection. But I find that claim difficult to reconcile with the fact these firms have only 11 locations in the more affluent areas north of River Road (all 11 are in the Northwest) but 42 locations in the economically stressed areas south of 22nd Street.

In my opinion, payday lenders are predators, sharks, vultures - whatever name you want for firms that make huge profits by preying on lower-income people in financial difficulty.

And those who enable them - legislators and banks, to name the two most obvious - are little better.

Jim Kiser, the Star's editorial columnist, appears Sunday, Wednesday and Friday. Contact him at jkiser@azstarnet.com or 807-8012.

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